
**Technology, Energy &
Communications Committee**

HB 1826

Brief Description: Encouraging alternative markets for agricultural industries.

Sponsors: Representatives Holmquist, Hinkle, Morrell and Dunn.

Brief Summary of Bill

- Sets minimum ethanol and biodiesel fuel content requirements for nondiesel and diesel motor fuels.
- Provides tax incentives for the manufacture of ethanol.

Hearing Date: 2/15/05

Staff: Sarah Dylag (786-7109).

Background:

Alcohol fuels are made from crops such as corn and sugar cane, and waste products such as waste paper, grasses, or tree trimmings. Ethanol is a type of alcohol fuel used in motor vehicles.

Under current law, a motor fuel quality program exists within the Department of Agriculture (Department). The director of the Department is authorized to sample and test all motor fuels sold in the state. All motor fuels must be registered before being offered for sale.

Retail Sales and Use Tax

The state retail sales tax rate is 6.5 percent and is imposed on the retail sale of most items of tangible personal property and some services. Sales tax is paid by the purchaser and collected by the seller. Sales tax revenue is deposited in the State General Fund.

The use tax is imposed on the use of an item in this state when the acquisition of the item has not been subject to sales tax. The use tax applies to items purchased from sellers who do not collect sales tax, items acquired from out-of-state, and items produced by the person using the item. Use tax is equal to the sales tax rate multiplied by the value of the property used. Use tax is paid directly to the Department of Revenue. Use tax revenue is deposited in the State General Fund.

Exemption from retail sales and use tax is allowed for machinery and equipment used directly to facilitate the retail sale of biodiesel, alcohol, or wood biomass fuel blend or for vehicles used to

deliver such fuels. The exemption includes services associated with the construction of structures to facilitate the sale of those fuels.

Property Tax

All property in this state is subject to the property tax each year based on the property's value, unless a specific exemption is provided by law.

Under current law, real and personal property used to manufacture alcohol fuel, biodiesel fuel, and wood biomass fuel is exempt from property tax for the first six years following completion of the manufacturing facility.

Leasehold Excise Tax

Property owned by federal, state, or local governments is exempt from the property tax. However, private lessees of government property are subject to the leasehold excise tax. The purpose of the leasehold excise tax is to impose a tax burden on persons using publicly-owned, tax-exempt property similar to the property tax that they would pay if they owned the property. The tax is collected by public entities that lease property to private parties.

Under current law, leasehold interests in real and personal property used primarily for manufacturing alcohol fuel, biodiesel fuel, and wood biomass fuel are exempt from leasehold tax for the first six years after the facility is operational.

Business and Occupation Tax

The business and occupation (B&O) tax is Washington's major business tax. The B&O tax is imposed on the gross receipts of business activities conducted within the state. Revenues are deposited in the State General Fund.

A preferential B&O tax rate of 0.138 percent is provided for manufacturers of alcohol fuel or wood biomass fuel.

Summary of Bill:

Minimum Fuel Content Requirements

All nondiesel motor fuels offered at retail sale must contain at least 10 percent ethanol by volume. The required ethanol may be acquired from any source authorized by state or federal law.

All diesel motor fuels offered at retail sale must contain at least 2 percent biodiesel fuel by volume. Biodiesel fuel has the same meaning as under current law: a mono alkyl ester of long chain fatty acids derived from vegetable oils or animal fats for use in compression-ignition engines that meets the requirements of the American society of testing and materials specification D 6751 in effect as of January 1, 2003.

If the director of the Department determines that sufficient verifiable quantities of competitively priced Washington-produced ethanol are not available to meet the minimum requirements and any other circumstances occur that would make compliance with the minimum requirements an undue hardship, the director of the Department shall authorize the sale of motor fuels that do not meet the minimum ethanol requirements.

Tax Incentives

The sales and use tax exemption is extended to include machinery and equipment used for the manufacture of ethanol.

The property tax exemption is extended to include real and personal property used primarily for manufacturing ethanol.

The leasehold tax exemption is extended to include real and personal property used primarily for manufacturing ethanol.

For purposes of payment of the business and occupation tax, those engaged in the manufacture of ethanol pay at the rate of 0.138 percent on their gross receipts.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.